



Fact Sheet

U.S. Department of Agriculture
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THE FUTURE OF AGRICULTURAL TRADE

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"In the Uruguay Round, countries recognized that the long-term solution for agriculture did not lie in administered prices, trade restrictions, supply controls, and export subsidies but rather in open, nondistorted markets," says Under Secretary of Agriculture August Schumacher. "Now is the time to take bold steps toward bringing agricultural trade into the 21st century by accelerating agricultural trade reform."

Schumacher sees four key areas for accelerating reforms: eliminating export subsidies; increasing market access through substantial tariff cuts and expansion of tariff-rate quotas; cutting further trade-distorting domestic subsidies; and ensuring technical standards are based on sound science.

The world's farmers and ranchers are facing two difficult challenges at the dawn of the 21st century. First, they are being asked to provide more products at lower cost, higher quality, greater variety, and in a safer manner than ever demanded before. Second, they are being asked to produce this abundance on a shrinking natural resource base that is often subject to government regulations. Meeting these global challenges will require unleashing the production potential of world agriculture while practicing proper environmental stewardship. The ingenuity and hard work we usually associate with farmers will be essential to meet these challenges, but they will not be sufficient unless we further reform agricultural trade to create an environment that rewards risk and investment and encourages efficiencies.

Today's Agricultural Challenges

As they should, American farmers have high expectations for the upcoming round of World Trade

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Organization (WTO) negotiations, scheduled to be launched at a ministerial meeting beginning on November 30, 1999, in Seattle, Washington. These negotiations give us the opportunity to substantially increase the market orientation of world agriculture. A dramatic result is precisely what the world needs to meet the challenges of providing food and fiber, in an environmentally sustainable way, for future generations.

Farmers are responsible for feeding a rapidly growing world population (figure 1). And despite progress over the years, too many people still are not getting enough food (figure 2). Many countries, including the United States, are working vigorously to promote technological innovations to meet the need for food and fiber in the coming years. However, as important as this work is, it is only part of the solution. These technologies and the hard work of the world's farmers need a trading environment that encourages investment and efficient production, and generates economic growth to finance production and consumption needs.

Currently, American farmers are suffering through weather-related disasters and low prices. Even as we work to address these immediate concerns, long-term trends in agriculture pose serious challenges for all farmers. The same technological advances that may increase yields result in lower prices. Increasing social concerns about the effect of agricultural production on the environment and living conditions result in new restrictions on farm activities. As urban dwellers and industry stake competing claims for land, water, and energy, many producers find their ability to farm made ever more difficult.

Two approaches to organizing the agricultural economy present a stark contrast in dealing with these challenges. One model, popular in Europe and parts of Asia, is to retain an inward-looking agricultural system focused on supply control and government regulation geared to keeping farm prices high and, since guaranteed high prices are a drain on the treasury, to controlling production. Under this approach, bureaucrats try to assess the optimal level of national production -- not so little that imports are needed and not so much that excess production must be bought at high prices and then dumped on world markets. This "command-and-control" structure stifles farmer efficiency and ingenuity and distorts world markets, especially as subsidized surpluses are regularly exported; and it does not address the challenge to farmers to produce food

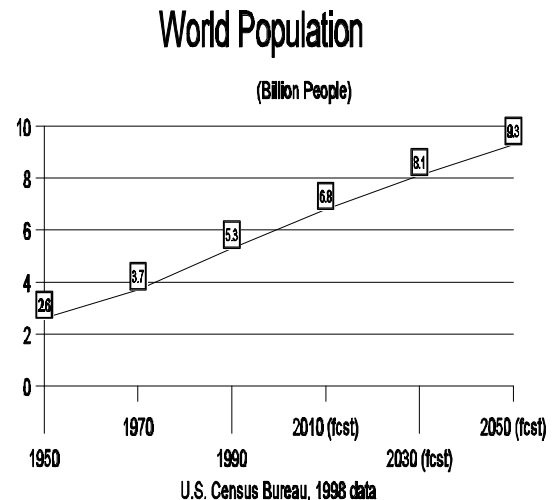


Figure 2

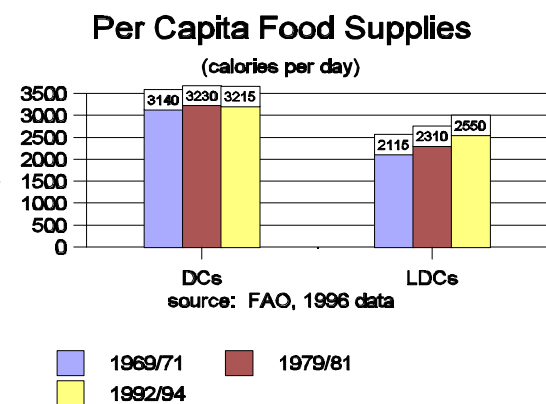


Figure 3

for the next century. It also ignores the interests of domestic consumers (who have to pay high internal prices) and producers in other countries (who have to compete with subsidized products).

Of biggest concern is that the anti-market policies of this approach hamstring the agriculture sector from pursuing the technological advances needed to meet its future challenges.

Another approach is to place agriculture on a more market-oriented basis, particularly by removing trade barriers and reducing trade-distorting policies. Greater market orientation was the principle that nations agreed to in the last set of multilateral trade negotiations. In the Uruguay Round, countries recognized that the long-term solution for agriculture did not lie in administered prices, trade restrictions, supply controls, and export subsidies but rather in open, nondistorted markets. Now is the time to take bold steps toward bringing agricultural trade into the 21st century by accelerating agricultural trade reform.

The Gains from Trade

The benefits from free and fair trading of agricultural products have immediate effects on people. Eliminating trade barriers and reducing unfair competition will help ensure that farmers have incentives to produce and consumers have access to the products they desire. Liberalizing agricultural trade will contribute to better resource allocation by farmers, which has conservation benefits, rewards low-cost producers, encourages efficiencies, and removes the drag on economic growth.

Opening trading opportunities also increases the food security of food-importing countries by giving supplier countries the confidence required to put more land into production and to create marketing relationships. Trade provides consumers with year-round access to a greater variety of less expensive products, while rewarding producers who are able to find and meet specific consumer demands for high-value products. In a broader context, by allowing imports that are more efficiently produced elsewhere, trade encourages specialization in efficient agricultural and nonagricultural production.

More dramatically, trade literally saves lives. Without the international flow of food products from areas with abundant production to areas where food is scarce, many people in the world would be eating less or not at all.

Trade has dynamic effects, as well, that push long-term productivity growth. For example, access to customers in overseas markets creates an incentive for technological innovation, resulting in exciting developments in improved seed varieties and production techniques. International markets also expand market outlets, raising prices and giving producers increased confidence to produce more than required merely for national needs, allowing productive farmers to not only feed their neighbors but literally feed the world.

Equally important, trade in agricultural products is becoming increasingly critical to farm

and ranch incomes. Increased productivity and oftentimes flat domestic demand increases the importance of reliable international markets. Foreign markets are not just a dumping ground for surplus products; overseas consumers value choice and quality, particularly when producers in their own country cannot meet their demands or when they are charged inflated prices. Consequently, foreign markets are the biggest growth area for most commodity and

value-added agricultural producers, raising farm-gate prices and helping support the range of agriculture-related industries.

Political reality also encourages a focus on international markets: policies based on high government guaranteed prices are ultimately politically untenable because they are hugely expensive, unresponsive to the needs of customers and producers, insensitive to environmental and agronomic realities, and a shameful waste of economic assets. Rather than farming government programs, our producers are looking for customers around the world.

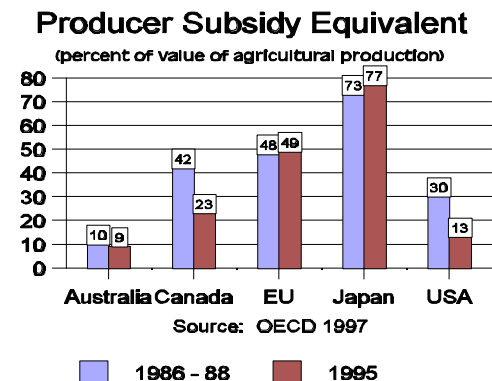


Figure 4

While agricultural trade benefits consumers and producers alike, it is an area in which progressive reform is ardently opposed by entrenched domestic interests. Producers in some countries, cosseted by high guaranteed prices and protective tariffs, oppose any move toward greater market orientation. Intervention in the agricultural economy -- measured by the Organization for Economic Cooperation and Development by summing price support, direct payments, and other support as a percent of total agricultural production (figure 3) -- has actually increased in some countries from the levels at the beginning of the Uruguay Round.

In the last set of multilateral trade negotiations, countries began the process of dismantling protection and delinking farm support from production decisions. Consequently, reforms have been undertaken by some countries. For example, in the United States we have retooled most of our farm programs to rely on market forces to determine farm prices; to help our producers transition to this new system, we have supplemented farmer income through direct payments delinked from a farmer's volume or type of production so as not to distort production incentives. We are also working to shore up our farm safety net through risk management, disaster relief, and rural development policies that complement, rather than interfere with, the workings of the market.

The WTO Opportunity

The U.S. objective in the upcoming farm talks is to accelerate the reform process initiated in the Uruguay Round. That means further substantial negotiations on tariffs, subsidies, and other trade-distorting measures so that the level and direction of trade are determined by market forces,

not government intervention. Four key areas are outlined below.

Export Competition. Export subsidies are the most distorting trade tool because the level and direction of trade is directly determined by government subsidies. Today, the European Union (EU) is the only substantial export subsidizer – nearly all other countries agreed not to use, or

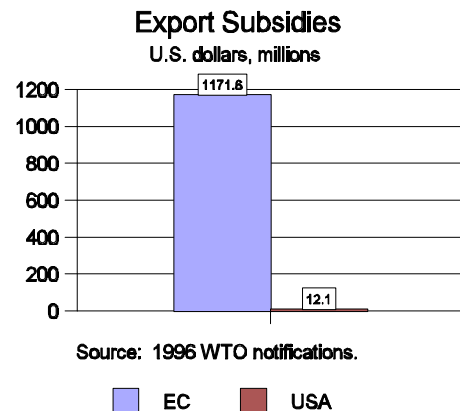


Figure 5

have only limited recourse to use, export subsidies in the last round of negotiations (figure 4). EU farmers, responding to domestic prices frequently twice the world price, produce more products than can be consumed in Europe, but at such high prices that they can be sold abroad only with generous subsidies. These subsidies push other competitive suppliers out of the market (which is expensive and unfair) and discourage production in countries that have a comparative advantage in agricultural production (which is wasteful and is threatening both to the environment and to future farm production needs).

In the Uruguay Round negotiations, countries acknowledged the corrosive nature of export subsidies and agreed to cap and reduce their use. The upcoming negotiations should eliminate them and take a hard look at the rules defining them to ensure that countries do not resort to other policy tools that allow government spending to determine winners in the marketplace. Specifically, WTO members should look closely at curbing distorting state trading agricultural export monopolies that can disguise subsidies and exert distorting market power, along with other policies used to dispose of surplus commodities on a nonmarket basis.

Market Access. Measures applied at the border to stop trade currently are the principal barrier to a freer and more open trading environment for agriculture. Market access barriers deny efficient producers the chance to compete in other markets and limit the variety and quality of products available to consumers. Opening markets and maximizing trade opportunities are fundamental principles of the WTO, and we still have a long way to go in agriculture to open markets to competition.

The Uruguay Round Agreement set agricultural trade on a more predictable basis by requiring that all nontariff measures, such as quotas and import bans, be converted to simple tariffs. While this was a necessary first step to removing trade barriers, many of the tariffs are still prohibitively high. For example, while the average tariff assessed by the United States on agricultural products is less than 10 percent (and nearly zero for industrial products), the average agriculture tariff assessed by WTO members is around 50 percent. Moreover, in some cases, market access is limited to a tariff-rate quota (TRQ), where only specific quantities of imports receive low duties. All other imports are charged high tariffs. Many other commodities also are subject to high tariffs.

As we start the next century, high tariffs should not stop the flow of imported agricultural products. Where TRQs remain as a transitional step before we achieve more open trade, we expect more specific disciplines on the way in which they are administered. Similarly, we need to take a hard look at agricultural state trading monopoly importers; use of these state traders may have been justifiable when more restrictions were allowed on farm trade, but in the tariff-only regime it is hard to see why a government needs to insert itself between an exporter and an end-user.

Domestic Subsidies. Domestic subsidy programs are often the root cause of other trade-distorting policies. Subsidy policies that increase domestic prices above world price levels can be maintained only if price-competitive imports are restricted. Additionally, overproduction generated by high domestic prices can be sold on world markets only with export subsidies that bring the price down to the world price. While reining in distortive domestic subsidy programs has value in its own right for rationalizing agricultural production, the WTO negotiations will focus on their trade-distorting elements.

In the Uruguay Round negotiations, countries agreed to distinguish trade-distorting subsidies (generally those linked to the production of a specific crop or related to price supports) from non-trade-distorting subsidies (such as research and development, training, and environmental protection). The trade-distorting subsidies were capped, and the process of reducing allowable levels of subsidies began. This distinction is a good one: the nasty sort of subsidy that distorts markets and straitjackets producers should be cut, while programs that will increase a country's ability to produce agricultural products in the next century without distorting production incentives should not be reduced.

Standards. As WTO members make progress on cutting tariffs and subsidies, the temptation increases to disguise trade barriers as health and safety measures or other innocuous-sounding "technical standards." Moreover, when regulations purportedly designed to protect health are instead vehicles for domestic protectionism, the credibility of the entire safety apparatus of a country is put up for questioning. When good science is replaced by politics, the basis for sound health policy is undermined. Therefore, increasing government accountability by putting the emphasis on sound science for health standards should discipline disguised barriers to trade and strengthen health policy.

In the Uruguay Round, countries agreed to a set of sound principles: each has the right to maintain health and safety measures, but these must be based on sound science, backed by scientific evidence and an assessment of the risk, and be no more trade-restrictive than required to meet health goals. In practice, countries have found that these principles work well -- bogus measures adopted without scientific basis have been successfully challenged in the WTO without sacrificing health concerns. Creating a supportive environment for the propagation of yield-enhancing biotech products is critical for meeting the needs of the coming century.

Agriculture Is Different

Agriculture occupies a special place in the national economies of most countries around the world. Farmers are responsible for feeding and clothing people. Farming also holds a powerful claim on our national cultures, that calls for the preservation of rural lifestyles and values. Farm production is subject to the cruel vagaries of weather and the relentless decline in prices and increases in costs. Some people point to these factors as justifying a differential treatment for agriculture in the international economy, including justifying trade-distorting agricultural policies. This is wrong-headed: societies can support farms and preserve rural communities in ways that foster choice, protect natural resources, and expand trade.

Farm production in the next century cannot afford to be trapped in a static system in which prices are determined by government mandate, production decisions are controlled by central planners, and farmers are forced to produce only for local consumers. This myopic system cannot be sustained in any important agriculture producing society. Moreover, this type of system will not meet the needs of the coming century, when we will face unprecedented consumer demand and natural resource constraints.

Instead, I look forward to a dynamic world of agricultural trade in which producers, exporters, and retailers apply the creativity of the human mind to the natural bounty of the earth. In this "new" world, we will produce a greater amount and variety of food than ever before, feed the coming billions, sustain our environment, and unlock economic resources otherwise stifled by moribund protectionism, ultimately raising living standards around the world.

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